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## Addressing Skills Gap in Small-sized Enterprises: Malaysian Case Study

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### Abstract

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Skill mismatch is one of the main challenges faced by small-sized enterprises (SSEs). Empirical evidence showed that, in far too many cases, workers are not well-matched with their current jobs. Some are over-skilled for their current jobs—they are capable of handling more complex tasks and their skills are underutilised—while others are under-skilled for their current jobs—they lack the skills normally needed for their job. Under-skilling is also likely to affect productivity and slow the rate at which more efficient technologies and approaches to work can be adopted. Skills policies should support employers in making better use of the talent available to them. Mechanisms that help managers, particularly in SSEs, to identify skill gaps should be emphasised. These include enhancing training delivery systems and practices that make the best use of the existing skills base.

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**Keywords:** Malaysia; Small-sized enterprises; Skill shortages; high income economy.

### 1. Introduction

Malaysia needs to have 50 per cent of skilled labour, especially in the science and technical (S&T) fields, to achieve a developed nation status by the year 2020. At present, Malaysia has 28 per cent S&T



skilled labour from 14.8 million workers in the country. In addition to skilled labour, labour skill gap problem exists when the state education sector (supply side) generates new employment skills that do not match the needs of the industry (demand side). In addition to the lack of innovation in research and development (R&D), the lack of skilled labour and skill gaps among workers has led Malaysia's economy to be caught in the middle-income group countries (Cheriv & Hasanov, 2015). This study discusses labour issues and the type of skills required by the industry, particularly among small and medium-sized enterprises (SMEs).

According to the Department of Statistics (DoS) Malaysia, there were about 634,136 SMEs in Malaysia in 2010, with gross output value of nearly RM507 billion. The number of workers engaged in SMEs was around 3.7 million people. Although the number of SMEs was higher than that of large firms (17,803 firms), its contribution to the total industry output value is small compared to the large firms. In 2010, the contribution of SMEs in industry gross output value was 29 per cent compared with the contribution of 72 per cent by large enterprises (DoS, 2012).

## **2. Literature Review**

The current generation lacks in skills that would affect their chances to get employed. Malaysia needs to produce human capital with first class mentality in order to face challenges in the knowledge based economy and innovation field (Norasmah, Nor Hafiza, Rahmah, 2012). Furthermore, there is a major concern over the quality of fresh graduates regarding their communication skills, foreign language proficiency, information communication and technology (ICT) skills, technical skills, ability to work in team or individually, and high personality. Another important criterion in the labour market is the need for experienced graduates (Nik, et. al, 2012).

However, most graduates lack work experience. Thereby, industrial training is pertinent to assist graduates to develop their skills as well as gain some job experience. Technical skills are also important for self-development as it could enhance creativity and talent among the youth. Technical and vocational education and training (TVET) must focus on the knowledge and skills required for industrial development (Onderi, Ajowi, & Malala, 2014).

According to the Federation of Malaysian Manufacturers (FMM), the shortage of workers frequently occurs in the technical fields. Furthermore, the recruitment process also has its own difficulties, as the FMM's survey finding showed that most applicants do not have relevant skills for the job (FMM, 2014). Besides that, unemployment among fresh graduates in Malaysia occurs due to skill mismatch, lack of English proficiency, and lack of general skills or skills shortage (Idham et. al, 2010). Moreover, it was argued that the mismatch between youth skills and the skills required by the industry contributes to youth unemployment (Subramaniam, 2010). The competitiveness of the firm is also affected by incompetent workers that lack skills (Noorziah, Abdul Kadir & Kamisah, 2015). A survey conducted by the DoS in 2013 showed that 35 per cent of workers have low qualifications, only 25.1 per cent have a bachelor degree, and there is 68 per cent skills shortage (DoS, 2013).

### **3. Methodology**

This study focused on small-sized enterprises (SSEs). Table 1 categorises SMEs by number of employees and type of business activity. The selection of SSEs was based on a random stratified sampling according to type of industry and region in Malaysia. A total sample of 297 qualified SSEs was supplied by the DoS. Of the total, 242 SSEs were successfully interviewed. The response rate of the survey was 81 per cent of the total sample. The questionnaire was addressed to the SSEs' human resource manager during the survey. The survey was conducted in August and September 2015.

**Table 1.** SMEs category

Size	Number of workers in agriculture, mining and quarry, construction and services sector
Micro	Less than 5 workers
Small	More than 5 to 50 workers
Medium	More than 51 to 150 works

The questions were divided into two main parts. The first part was related to the company profile, covering type of economic activity they undertake, ownership structure, and geographic market of SSEs. The second part assessed the need for the development of youth skills and talents, which include questions regarding lack of management skills and talent in the SES, the types of required skills for a period of five years, the training programmes required by the firm, skill mismatch faced by the company, and criteria recruitment by type of employment—general workers, supervisors and technicians, new graduates, and managers/professionals.

A Likert scale from 1 (very low) to 5 (very high) was used to measure the importance of explanatory variables on skill and talent development of SSEs' workers. The statistical software SPSS version.22 was used to analyse the data from the survey. The mean (M) score was used to assess the performance of the observed variable. If the M score is high, then there is a strong relationship between the observed variables.

#### **3.1. SSEs profile**

The majority of the sample was private limited firms (76 per cent), followed by single business (19 per cent), partnership (4 per cent), and public limited companies (1 per cent). In addition, 90 per cent of firms were fully owned Malaysian companies, 8 per cent were majority Malaysian owned, while 50-50 ownership (1 per cent), majority foreign owned, and fully owned foreign companies (0.4 per cent) made up the rest of the sample. In terms of market geography, 95.5 per cent of firms concentrated in the domestic market, 4.1 per cent ventured into the international market, and 0.4 per cent businesses were both operating in the domestic and international levels. Besides that, 77 per cent of firms did not have any R&D facilities, while 23 per cent had R&D facilities. The period of establishment showed that there were 47 per cent companies operating between 6 to 10 years, 30% were established for more than 10 years, and 22.7% were newly established in the past 1 to 5 years.

## **4. Finding and Analysis**

### *4.1 The need for critical skills and talent management*

For the need of critical skills and talent management in SSEs for the next 5 years, the majority of SSEs (68 per cent) agreed that they have sufficient skills and talent management among their workers until 2020. However, 32 per cent of SSEs viewed that they will face the problem of skilled and talent management shortages in the near future, and about 16 per cent of SSEs were aware of such problem since 2010.

### *4.2 Attributes of skill and talent management*

Attributes that affect skill and talent management in SSEs are communication, teamwork, problem solving, initiative and enterprise, planning and organising, self-management, learning, and technology. Among the attributes, about 44 per cent of SSEs agreed that teamwork is the most important (M=4.23) for skill and talent management, followed by initiative and enterprise among workers (M=4.17). However, due to the nature of the firms' size, about 30 per cent of the SSEs' viewed that technology is the least important attribute in skill and talent management (M=3.94). Even though technology was given the least emphasis compared to the other attributes, its mean score was almost 4, which could be considered as high.

In order to overcome the problem of skills and talent management shortages, approximately 75 per cent of SSEs adopted the approach of enhancing skills and talent management amongst its employees internally. This would enable them to save on cost on skills development and training if it was carried out external to the firms. In order to increase the employee skills, the majority of SSEs require their employees to undergo technical skills training (62 per cent), followed by information technology training (30 per cent), and human resource management (15 per cent).

### *4.3 The expectation of management skills that required within the next 5 years*

The types of skills the firms require cover five main areas, namely technical, management, finance, marketing, and leadership. Among 60 to 77 per cent of SSEs stated that all management skills are important. Among the skills that has been considered to be critical for SSEs in the next five years (in preparation for the year 2020) is marketing skills among employees (M=4.19). This is pertinent in enhancing the sales accomplished by the firms in the future in order to ensure the survival of the firm in business. Other important skills, according to the mean score values, included management (M=4.17), followed by finance (M=4.08), technical (M=4.0), and finally leadership (M=3.96).

### *4.4 Types of skill mismatch*

Response from the SSEs related to the skill mismatch was mixed. Overall, about 52 per cent from SSEs stated that they did not face the problem of skill mismatch among their workers. Meanwhile, 48 per cent from SSEs highlighted that they faced the problem of skill mismatch. For these SSEs that do face this problem, they specifically had to deal with the problem of skill gap, which is the occurrence when the level of skills is different from that required to adequately perform the job (64%), followed

by skill shortage which is the demand for a particular type of skill exceeds the supply of people with the skill (59%). Therefore, this response by the SSEs regarding the skill mismatch is in line with the action taken by SSEs in wanting their workers to join technical and information technology related training programmes.

#### *4.5 Criteria for recruiting general workers, supervisors and technicians, new graduates, and managers*

Work experience, English language proficiency, and wage levers are the main deciding factors in recruiting workers for positions as general workers, supervisors and technicians, new graduates, and managers. For general workers, the most important criteria is work experience (M = 4.02). As for supervisors and technicians, it was found that all criteria are equally important but work experience shows the highest mean (M = 4.35). With regard to recruitment of new graduates, English language proficiency is the most important (=4.14). Lastly the most important criterion in hiring professional managers is also work experience (M = 4.48).

#### *4.6 Type of SSEs' economic activity and skill and talent management's attributes*

For this section, the SSEs economic activity was divided into three main sectors, namely (i) wood and wood products (WWP), (ii) food, beverage, and tobacco (FBT), and (iii) services. For SSEs involved in the production of WWP, their workers largely lacked in the learning skill area. Meanwhile for the FBT sector, its workers were weak in the area of problem solving. For the services sector, the SSE workers were faced with problem of self-management skills.

In order to overcome the problem of lacking in skill and talent management amongst workers in firms, SSEs involved in WWP and services industries focus on the external recruitment. Meanwhile, the FBT sector implements internal cross skilling and leadership development programmes. This means that the type of economic activity the SSEs are involved in would influence the skills attribute and talent management amongst SSEs workers. Therefore, SSE firms should overcome the problem of poor skills attribute and talent management amongst workers by taking economic activity type into consideration.

The majority of firms agreed that skills in (i) technical, (ii) management, (iii) finance, (iv) marketing, and (v) leadership areas would affect the effectiveness of the firm in the future. In the coming five years, as the year 2020 looms closer, among the five skill attributes of firm workers, SSEs place greater emphasis on marketing skills (M=4.19). This skill is among the most pertinent in ensuring the SSE success in future business endeavours. Additionally, the other identified attributes also influence the sustainability of the business, which include management (M=4.17), followed by finance (M=4.08), technical (M=4.00), and finally leadership (M=3.96).

## **5. Conclusion**

Even though the majority of SSEs stated that they did not have problems with skills and talent management shortages among their workers, there were still a number of SSEs that faced the lack of skills and talent management in their workers in the near future. This problem, if left unchecked, could affect the operation and profit of SSE businesses in the future. SSEs also realised that other skills such

as teamwork, and initiative and enterprise as well as technology are important in enhancing the skills and talent management amongst their workers. They also acknowledged the existence of skill mismatch in the form of skill gap and skill shortage among their workers. In order to overcome these problems of skill gap and skill shortage, SSEs need to focus on training programmes for enhancing technical, information technology, and human resource management skills. In addition to this and relating the recruitment of workers into the general worker positions up until the managerial positions, SSEs should place emphasis on the criteria of work experience, English language proficiency, and wage levels in order to overcome the above described problems of skill mismatch among their workers.

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